

# **Debt Reimbursement Program**

## **Department of Education & Early Development – Program 4**

### **I. PROGRAM OBJECTIVES**

AS 14.11.100 authorizes payments for reimbursement of principal and interest on bonds and other outstanding indebtedness for the construction of education facilities. Payments are based on annual appropriations from the Legislature and are made to a municipality that is a school district.

### **II. PROGRAM PROCEDURES**

Based on the annual appropriation for debt service, the Department determines the level of funding available for reimbursement to school districts for their payments of outstanding bonds or cash payments from local revenue for approved projects. If sufficient funds are not available to meet the entitlement, the Department will distribute these funds on a pro rata basis.

### **III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES**

Projects authorized to utilize an allocation provided under AS.14.11.100 (a)(7) 100 and 4 AAC 31 must meet the requirements of the portions of AS.14.11.100 (j) included in AS 14.11.100(a) to be in compliance. Other projects must have been approved by the Department prior to the bond election held by the municipality, or prior to the local revenue expenditures unless otherwise exempted. All approved projects must be constructed in accordance with the procedures outlined in AS 14.11.100 and 4 AAC 31.023.

#### **A. TYPES OF SERVICES ALLOWED OR UNALLOWED**

##### **Compliance Requirement**

Revenue from bond sales approved by the Department of Education and Early Development may only be used for the construction or rehabilitation of education facilities as approved by the Department of Education and Early Development, or to reduce indebtedness incurred for that purpose. Cash expenditures on projects approved by the Department may only be reimbursed if the source of funding is locally generated revenue. Grant fund expenditures may not be reimbursed under AS 14.11.100. When revenue from bond sales is used to reduce indebtedness incurred under this program, that amount is not eligible for reimbursement. Debt incurred for the purpose of meeting the participating share requirements as per AS 14.11.008 is not eligible for reimbursement.

#### Suggested Audit Procedures

- Determine whether systems and procedures are in place to ensure that revenue from applicable bond sales was used only for the construction or rehabilitation of education facilities as approved by the Department, or to reduce related debt;
- If bond sale revenue was used to reduce related debt, analyze expenditures and sources of funding to ensure that Department funds were not used to reimburse that portion;
- Review and evaluate policies and procedures for ensuring compliance with this limitation;
- Determine the source of funding used for the approved capital projects;
- Analyze expenditures and sources of funding to ensure that Department funds were used only to reimburse locally generated funds as per AS 14.11.100; and
- Review to evaluate policies and procedures for ensuring compliance with this limitation.

#### Compliance Requirement

Capital project funds generated through local bonds reimbursed under AS 14.11 can be expended only for the purpose stipulated in the enabling legislation and as specified in the project agreement.

#### Suggested Audit Procedure

- Test project expenditures to determine whether they are necessary and reasonable for the performance and administration of the project, and are authorized or not prohibited under the project agreement and other applicable guidelines and regulations.

### B. ELIGIBILITY

#### Compliance Requirement

All city and borough school districts within the State of Alaska are eligible for this program although allocations under AS 14.11.100 may target specific districts based on student populations.

#### Suggested Audit Procedure

- Test project approvals and authorizations made by the department against allocation categories and amounts.

### C. MATCHING, LEVEL OF EFFORT, AND/OR EARMARKING REQUIREMENTS

#### Compliance Requirement

Under current provisions of AS 14.11.100, local municipalities must pay a percentage of the cost of outstanding bonds or cash payments from local revenue for school construction under this program.

#### Suggested Audit Procedures

- Test financial and related records to ensure that the approved percentage is being paid from locally generated revenue; and
- Review and evaluate policies and procedures for ensuring compliance with this provision.

### D. REPORTING REQUIREMENTS

#### Compliance Requirement

Under 4 AAC 31.060, for all projects in an active status, a School Construction Project Report form must be completed and submitted to the Department by October 15 each year. The final report for the project requires verification by an independent auditor for projects with costs exceeding \$300,000.

The results of operations of capital projects that extend over two or more fiscal years must be presented on a dual basis. In accordance with the codification of Governmental Accounting and Financial Reporting Standards 1300.113-. 114, the statement of revenues, expenditures, and changes in fund balance must be presented for both the current year and on a cumulative basis since inception of the project.

#### Suggested Audit Procedures

- Review procedures for preparing report and evaluate adequacy;
- Trace data to the supporting documentation;
- Evaluate adjustments for propriety;
- Perform any additional steps necessary to verify the final report as required; and
- Verify that project expenditures are presented both for the current year and on a cumulative, inception to date, basis. Cumulative expenditures may be presented in a schedule to support the financial statements or in a special purpose report.

### E. SPECIAL TESTS AND PROVISIONS

#### Compliance Requirement

This program reimburses construction costs that are financed by bond indebtedness. Under AS 14.11.100(i), reimbursements will be made only after bonds are sold and debt incurred, and for cash payments to vendors, only after those amounts are paid to the vendor. Additionally, reimbursements will not be made for contract costs paid after a contract has been released.

#### Suggested Audit Procedure

- Compare bond sale, vendor payment, and contract dates to related reimbursements to determine compliance with AS 14.11.100 (i).

#### Compliance Requirement

The plan for the use of the facility is approved by the Department prior to construction. The approved facility must meet the criteria in 4 AAC 31.061-.062.

#### Suggested Audit Procedures

- By observation and/or discussion, determine that the facility is being used in a manner consistent with Department approval and 4 AAC 31.061-.062.
- Test transactions to determine whether costs are prohibited.

#### Compliance Requirement

According to 4 AAC 31.080, construction under this program must be performed under a written contract awarded on the basis of competitive sealed bids not to exclude design/build or limited force-account construction. The award will be made to the lowest responsible bidder with no preference to local bidders.

#### Suggested Audit Procedure

- Review procurement documents to determine compliance with the provisions of 4 AAC 31.080.

#### Compliance Requirement

The use of interest earned on bond proceeds is restricted by 4 AAC 31.063.

#### Suggested Audit Procedures

- Determine whether systems and procedures are in place for the identification and assignment of program income to assure appropriate use in accordance with 4 AAC 31.063; and
- Test selected items to determine whether program income was properly accounted for and utilized.

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